INDUSTRY IN CRISIS?

■ ■ ■

A SURVEY OF

THE TOP 500

EARNINGS OF FORTUNE EXECUTIVES

HEIDRICK & STRUGGLES
Consultants in Executive Search

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INTRODUCTION

The top 300 bank chief executives — Who are they? What do they think? What critical issues do they believe banks will face in the 90s? How do they perceive the role of the bank CEO, historically and in the future? How do they describe themselves?

These questions provided impetus for the 1991 *American Banker*/Heidrick & Struggles confidential survey of the nation's top 300 bank chief executive officers. Careful examination of the data indicates the traditional bank CEO may be rapidly becoming an anachronism and the banking industry as a whole may be in the throes of a leadership crisis.

Major differences exist between how today's top bankers describe the bank CEO of the past and the ideal bank CEO of the future. In their own words, bank CEOs historically have not been hands-on managers of operations or bigger-picture strategists able to anticipate or meet the need for alternative services and products.

Today's bank CEOs attribute their own success to hard work, leadership ability and people skills. In contrast, they describe the ideal bank CEO as "flexible," "strategic" and "innovative." Moreover, they worry that banks today lack the management depth or bench strength needed to lead banks in the future.

Who has the "right stuff" to lead banks in the future? A majority of the top 300 bank chief executives feel banking is losing its insularity and more banking CEO positions will be filled by executives outside the industry — a trend that would have been considered anathema five years ago. As consolidation, competition and capital issues continue to change the face of the banking industry, it is vital for us to remember that with every crisis comes opportunity.

The Financial Institutions Practice
Heidrick & Struggles

October 1991

ABOUT THIS STUDY

Heidrick & Struggles and *American Banker* sent a confidential direct mail survey in April 1991 to CEOs of the nation's top 300 commercial banks, as measured by assets. Responses were received from 25 percent of those individuals surveyed. Ninety-nine percent of those responding to the survey were regional bank chief executives.

This report provides a comprehensive overview of the data. Survey findings can also be found in the July 19, 1991 *American Banker* insert, "Life At The Top."

Heidrick & Struggles is grateful to *American Banker* and the participating bank chief executives who took the time and effort necessary to make this timely study possible.

ABOUT HEIDRICK & STRUGGLES

For more than 38 years, Heidrick & Struggles has devoted its resources exclusively to executive search. This specialization allows its professionals to concentrate their energies on identifying, attracting, and retaining executive talent for client organizations. The firm has more than 150 consultants working together in 25 North American and international offices. Their efforts are supported by a highly trained research staff and a worldwide information database.

The firm has a significant track record of serving the needs of clients in the financial services industry. In the past three years, the Financial Institutions Practice has conducted more than 1000 assignments for financial institutions ranging from corporate, retail and investment banks to venture capital firms and financial agencies and intermediaries.

EXECUTIVE SUMMARY

- The top issues facing bank CEOs in the 90s will be the three Cs — *consolidation, competition* and *capital.*

- Super-regional bank leaders John Medlin of First Wachovia Corporation and John B. McCoy, Chairman of Banc One, are the two best banking CEOs today, according to their peers.

- Many banks have faltered because bank leaders were inflexible or unable to anticipate the need for alternative banking services and products, according to 49 percent of CEO respondents.

- Historically, bank CEOs have not been hands-on managers of operations, report 78 percent of respondents. Ninety-seven percent believe "CEOs in the 90s must be closer to the business."

- Over 50 percent of survey participants believe "most banks have little management depth or bench strength."

- Banking is losing its insularity and more banking CEO positions will be filled by executives outside the industry, according to 55 percent of respondents.

- No bank today is "too big to fail," according to 68 percent of CEO respondents. In fact, 47 percent believe large commercial banks will be the most vulnerable or likely to fail financial institutions in the 90s.

- *Leadership ability, hard work* and *people skills* are factors participating CEOs feel have most contributed to their own success. *Strategic thinking, innovation* and *flexibility* are qualities most bank CEOs look for in successors or the "ideal" bank CEO.

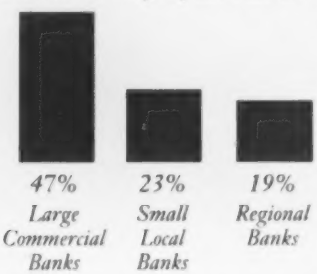
CRITICAL ISSUES

Consolidation, competition and capital — the three C's — are the top issues that face bank chief executives in the 90s, according to survey respondents.

All bank CEO respondents believe non-bank financial services companies will continue to pose a serious competitive threat to traditional banking: car loans, home mortgages and credit cards will be the prerogative of many players, not just banks, in the 90s.

Large commercial banks are more vulnerable and "likely to fail" than either regional or small local banks, according to 47 percent of survey participants. Furthermore, over two-thirds of chief executive respondents (68.4 percent) agree that "no bank today is too big to fail," and 85 percent do not believe scarce resources should be used to artificially sustain failing banks.

Institutions CEOs feel are "most vulnerable or likely to fail in the 90s"



Downsizing of banks will continue to be a reality in the 90s. Eighty-one percent of bank chief executives responding report they tried to improve efficiency last year by decreasing their number of employees, and 73 percent indicate they plan to reduce their workforce again in 1991. Fortunately, 92 percent plan to reduce their workforce by only 10 percent or less.

Bank chief executives are in almost complete agreement about one trend: outsourcing. Ninety-two percent of responding bank CEOs believe "outsourcing of operations, such as check processing, will become more prevalent in the 90s."

Linking executive pay to individual performance is an accepted practice in the banking industry. Currently, 92 percent of bank CEO participants claim their banks offer pay-for-performance incentives to their executives, and 76 percent say their banks have a program that measures executive performance in relation to compensation.

However, today's bank CEOs may not welcome linking executive or director compensation to bank performance. While over two-thirds (68.5 percent of survey respondents) believe board members should hold meaningful equity, only 38 percent agree with the statement, "bank directors should receive financial rewards commensurate with their banks' performance."

CEO Compensation and Benefits

A majority of responding bank CEOs (67.6 percent) earned between $250,000 and $500,000 in total cash compensation (salary and bonus) in 1990. Twenty percent earned between $500,000 and $1 million. Less than 10 percent of respondents earned over $1 million. It is interesting to note that almost one-fifth of bank CEOs received no bonus in 1990.

CEOs receiving total cash compensation between $250,000 – 500,000

68%

Stock options are clearly the top perk, with 95 percent of bank CEO respondents owning stock in their banks. However, only one-third of CEO respondents own more than 40,000 shares.

The majority of responding bank CEOs also receive city club memberships (79.5 percent), country club memberships (75.3 percent) and a company automobile (64.4 percent). Deferred compensation, extra life insurance and financial counseling are awarded to slightly over half of the respondents, with approximately one-quarter receiving travel perks such as flying first class or in company-owned airplanes. Less than one-in-ten CEOs report receiving reimbursement for uninsured medical costs (6.8 percent), legal counseling (2.7 percent) or low-cost loans (1.4 percent).

Only one-third of top bank CEOs own more than 40,000 shares of stock in their own banks.

A PERSONAL PROFILE OF THE TOP BANK CEO

America's top bank CEOs are a demographically homogeneous group. With one exception, all survey participants are white males. Seventy-eight percent are married to their first spouse. Only one respondent reports being single and never married. Seventy-five percent are Protestant, 17.8 percent are Roman Catholic and only 1.4 percent are Jewish.

CEOs 55 years old or younger
74%

Over one-half of the top CEOs are between the ages of 46 and 55 years old. A younger group — between the ages of 37 and 45 — comprises over 21 percent of those responding. Forty percent of CEO respondents hold MBA degrees, but only one-fourth responding believe "an executive with an MBA is more valuable to the bank in the long run than an executive without one." Interestingly, while only 15 percent of the top bank CEOs today hold an undergraduate degree in the liberal arts or humanities, almost one-third believe a liberal arts degree is "the most helpful undergraduate degree a banking leader can have."

CEOs who have MBA degrees
40%

Almost two-thirds of the top bank CEOs do not feel they have sufficient time to spend with their families (56.8 percent) or pursue outside interests (65.8 percent). However, over 40 percent of today's bank CEOs report they have taken between four and five weeks of vacation time within the last year.

Long work weeks may limit the time CEOs have to spend with their families or to pursue hobbies and outside interests. Indeed, only 3 percent of participating executives surveyed report spending less than 55 hours working each week. Moreover, almost one-fifth (17.6 percent) of responding CEOs devote between 70 and 80 hours to business — excluding commuting, but including business travel and entertainment — in an average work week.

CAREER PATTERNS

Career patterns of the nation's top bank CEOs are not characterized by significant mobility or change. Eighty-one percent of the responding bank CEOs attained their present positions by promotion from within their present banks. Forty-seven percent obtained their posts through the initiative of their predecessors. Only 15 percent were outsiders identified by an executive search firm.

CEOs who attained present post by promotion within present bank

81%

Seventy-eight percent of CEOs have spent more than 20 years in banking. Over two-thirds have relocated geographically two times or less in the course of their careers, excluding military service.

CEOs who spent more than 20 years in banking

78%

Not surprisingly, the primary functional backgrounds for bank CEOs are corporate banking (44.6 percent) and retail banking (21.6 percent). Only 12 percent of responding chief executives report a functional background in finance or control.

Despite their extensive experience within the banking industry, most bank leaders surveyed are relatively inexperienced CEOs. Almost one-half of bank executives responding (42.4 percent) have been chief executives for two years or less.

A majority of the bank CEO survey respondents believe hard work, leadership ability and people skills are the factors which contributed most to their own success. Less than one-fifth believe technical expertise, educational credentials or administrative abilities were pivotal in their rise to the top.

Almost one-half of bank chief executives have been CEOs for two years or less.

Over one-half of responding CEOs (56.0 percent) would like to improve themselves by acquiring a new skill in the next five years. Patience and computer skills were cited by 15 percent of CEOs respectively, followed by learning a foreign language (8.3 percent) and acquiring public speaking techniques (8.3 percent).

LEADERSHIP CRISIS

How do today's top CEOs perceive themselves? Who do they feel has the "right stuff" to lead banks? How do they describe the ideal bank CEO in the 90s? Major differences exist between how today's top bankers describe the bank CEO of the past and the ideal bank CEO of the future.

CEOs who believe future banking leaders "must be closer to the business"

97%

Historically, bank CEOs have not been hands-on managers of operations, according to 78 percent of participating CEOs. Similarly, almost one-half of those surveyed (49.3 percent) believe "many banks faltered in the past because bank leaders were inflexible or unable to anticipate or meet the need for alternative banking services and products." Over 97 percent of responding CEOs agree "banking leaders in the 90s must be closer to the business and its problems and must monitor their banks' business operations more carefully."

Survey participants do not give high marks to their bank CEO contemporaries either. About 40 percent of those responding believe bank CEOs today a) do not possess what it takes to lead banks in a deregulated environment and b) lack the "bigger picture" vision or broad operating experience needed to become the chief executives of consolidated banks in the future.

Who does exhibit the leadership banks need? Super-regional bank leaders John Medlin of First Wachovia Corporation and John B. McCoy, Chairman of Banc One, are the two best banking CEOs today, according to their peers. Interestingly, no money center bank chief executive received more than a few mentions by survey participants.

General Electric CEO Jack Welch and American Express leader James Robinson top the list of non-bank chief executives who have, in survey respondents' estimation, the "right stuff" to lead banks.

Survey data suggest that a bank CEO today may feel unsure about his own ability to lead in a rapidly changing environment. When asked to list adjectives that best describe their own management styles, bank CEO participants most often list "open," "aggressive" and "decisive." However, when asked to describe leadership qualities required of the "ideal CEO" in the 90s or the qualities they seek in a successor, "flexible," "innovative" and "strategic" top the list.

The "ideal CEO?" Flexible, innovative, strategic.

Survey findings also indicate that bank CEOs seem unconvinced that leadership talent exists within the ranks beneath them to manage their banks in the future. According to 53.4 percent of those surveyed, "most banks have little management depth or bench strength." Moreover, about one-third of CEOs responding to the survey a) do not have a succession plan in place and b) are not grooming a No. 2 executive to replace them.

Who has the "right stuff?" General Electric CEO Jack Welch and American Express CEO James Robinson.

If current bank leaders are worried about their own leadership acumen, as well as the apparent lack of management bench strength beneath them, perhaps one might hypothesize that bank CEOs in the future may be drawn from the ranks of those outside the banking industry. Indeed, the majority of survey respondents (54.8 percent) agree with the statement, "banking is losing its insularity, and more banking CEO positions in the 90s will be filled by outsiders."

CONCLUSION

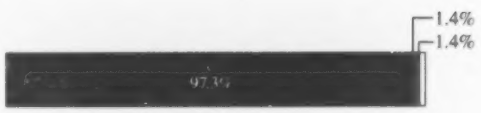
Only time will reveal the profile of the successful bank CEO in the 90s and beyond. This study suggests, however, that today's top bank CEOs believe that the traditional role of the bank chief executive officer may change dramatically and that strategic and innovative thinking, flexibility and hands-on management will be the mark of the ideal bank CEO in the future. ■

ISSUES

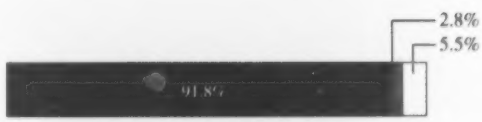
Agree
Disagree
No opinion/ Unsure

Non-bank financial companies will continue to pose a competitive threat to traditional banking; car loans, home mortgages and credit cards will be the prerogative of *many* players, not just banks.

Banking leaders in the 90s must be closer to the business and its problems and must monitor their banks' business operations more carefully.

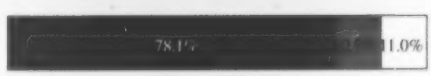


Outsourcing of operations, such as check processing, will become more prevalent in the 90s.



Scarce resources should not be used to artificially sustain failing banks.

Historically, bank CEOs have *not* been hands-on managers of operations.



Board members in the 90s should hold meaningful equity.

No bank today is "too big to fail."

Banking is losing its insularity; in the 90s, more and more banking CEO positions will be filled by outsiders.

Most banks have little management depth or "bench strength."

Many banks faltered in the 90s because bank leaders were inflexible or unable to anticipate and meet the need for alternative banking services and products.

The majority of bank CEOs today do not possess what it takes to lead banks in a deregulated environment.

Most presidents of regional banking subsidiaries lack the "bigger picture" vision or broad operating experience needed to become the CEOs of consolidated banks.

Bank directors should receive financial rewards commensurate with their banks' performance.

Banks' reliance on automation is easing the way for technology managers to become CEOs in the future.

Executives with MBAs are more valuable in the long run to a bank than those without MBAs.

Down the line, many foreign bank leaders will be recruited to manage U.S. banks.

**Results may not add up to 100% due to missing data or multiple responses.*

COMPENSATION

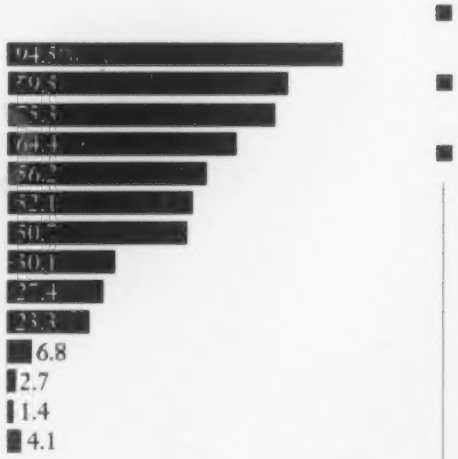
Total cash compensation in 1990 (salary and bonus)

More than $1 million	8.5%
$500,001 - $1 million	19.7
$250,000 - 500,000	67.6
Less than $250,000	4.2

Total bonus in 1990

More than 100% of base	6.2%
51 - 100% of base	13.8
25 - 50% of base	55.4
10 - 24% of base	6.2
No bonus	18.5

Perquisites



Total shares of stock owned

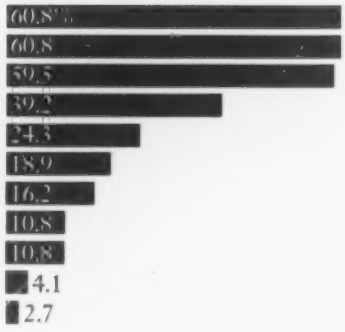
0 - 5,000	21.3%
5,001 - 15,000	19.7
15,001 - 40,000	26.2
40,001 - 100,000	18.0
100,001 or more	14.8

PERSONAL DATA

Age

45 or younger	21.6%
46 - 50	24.3
51 - 55	28.4
56 - 60	10.8
61 or older	14.9

What three factors have contributed most toward your success?



Which one skill would you most like to acquire in the next five years?

Patience	14.6%
Computer skills	14.6
Foreign language	8.3
Public speaking	8.3
Investment banking, M.A.	6.3
Leadership skills	6.3
Other	41.8

**Results may not add up to 100% due to missing data or multiple responses.*

EDUCATION

Ninety-four percent of CEOs responding earned a post-high-school degree. While nearly one-fourth majored in economics or business administration, the largest proportion believe obtaining a broad education with a degree in liberal arts or humanities is actually the most helpful background a banking leader can possess.

Undergraduate Major	*Degree earned*	*Degree believed to be most helpful*
Accounting	3.7%	7.3%
Business Administration	24.4	21.9
Economics	23.2	8.3
Finance/Banking	14.6	20.8
International/Foreign studies	4.9	0.0
Liberal Arts/Humanities	15.9	28.1
Marketing/Management	4.9	0.0
Math	1.2	2.1
Psychology	1.2	3.1
Other	3.7	4.2
No answer	2.4	4.2

Highest educational attainment	
High school diploma	5.4%
Bachelor's degree	43.2
M.B.A.	39.2
J.D./L.L.B.	4.1
Other Master's degree	8.1

CAREER

Years in banking

1 - 15 years	5.4%
16 - 20 years	16.2
21 - 25 years	25.7
26 - 35 years	37.8
36 or more years	14.9

Years as CEO

1 year	21.9%
2 years	20.5
3 years	8.2
4 years	12.3
5 years	12.3
6 - 10 years	11.0
11 - 15 years	9.6
16 or more years	4.1

Excluding your own, on how many outside boards do you sit?

0	29.2%
1	26.4
2	26.4
3 or more	18.1

Would you serve on a board that did not offer Director and Officer liability insurance?

Yes	5.6%
No	94.4

**Results may not add up to 100% due to missing data or multiple responses.*

PUBLICATIONS

Industry in Crisis? A Survey of the Top 300 Banks' Chief Executives

The Changing Board: A survey of chairmen and the boards they direct

Chief Executive Officer

Chief Financial Officer

Chief Human Resources Executive

Chief Information Officer

Chief Marketing Executive

The Corporate Woman Officer

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